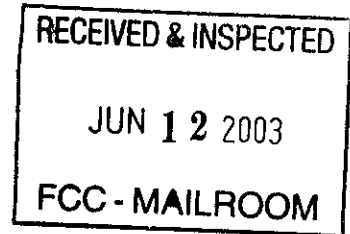




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707 Seventeenth Street
Suite 2700
Denver, CO 80202



June 11, 2003

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

**Re: Application of Qwest Communications International Inc. and
U S WEST, Inc.
CC Docket No. 99-272**

Dear Ms. Dortch:

I enclose herewith the following documents issued in connection with KPMG LLP's attestation examination of Qwest Communications International Inc.'s ("Qwest") compliance with the Merger Orders¹ during the period from January 1, 2002 to December 31, 2002:

- Independent Accountants' Report dated June 11, 2003
- Letter dated June 11, 2003 summarizing certain matters noted during our examination for your consideration. Such matters did not change our judgments about materiality in planning and performing the engagement or in forming our opinion on Qwest's compliance with the Merger Orders.

¹ *In the Matter of Qwest Communications International Inc. and U.S. WEST, Inc., Applications for Transfer of Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License, Memorandum Opinion and Order, CC Docket No. 99-272, FCC 00-91, released March 10, 2000, and FCC 00-231, released June 26, 2000 (the "June 26 Order") (collectively, the "Merger Orders").* Qwest submitted a plan to the Federal Communications Commission (the "Commission") regarding the divestiture of its in-region interLATA services in compliance with the relevant requirements of Section 271 of the Telecommunications Act of 1996. This plan was set forth in a Divestiture Compliance Report submitted on April 14, 2000, and in subsequent filings by Qwest with the Commission in Docket No. 99-272, and was approved by the Commission as consistent with Section 271, subject to certain modifications, as set forth in the June 26 Order (as so modified, the "Final Divestiture Plan").

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Marlene H. Dortch
Secretary
Federal Communications Commission
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The above report and letter are intended solely for the information and use of the Board of Directors and management of Qwest and the Federal Communications Commission and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

KPMG LLP

A handwritten signature in black ink, appearing to read "Carl Geppert".

Carl R. Geppert
Partner

Enclosures

cc: Ms. Maureen F. Del Duca
Mr. Anthony Dale
Mr. Mark Stephens
Mr. Robert Bentley



707 Seventeenth Street
Suite 2700
Denver, CO 80202

Independent Accountants' Report

The Board of Directors of Qwest Communications International Inc.
and the Federal Communications Commission:

We have examined Qwest Communications International Inc.'s ("Qwest") compliance with the Merger Orders¹ during the period from January 1, 2002 through December 31, 2002 (the "Evaluation Period"). Management is responsible for Qwest's compliance with the Merger Orders. Our responsibility is to express an opinion on Qwest's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Qwest's compliance with the Merger Orders and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Qwest's compliance with the Merger Orders.

Our examination disclosed the following material noncompliance with the Merger Orders applicable to Qwest during the Evaluation Period. These instances of noncompliance with the Merger Orders were addressed in Qwest's letters to the Commission dated December 3, 2002, March 7, 2003 and March 11, 2003, and in the Consent Decree entered into between the Commission and Qwest on May 5, 2003:²

- Four in-region interLATA private lines were provided to Cable & Wireless ("C&W") pursuant to a March 2002 agreement between Qwest and C&W. Such private line facilities were terminated on December 9 and 10, 2002. No payments for such facilities were received from C&W during the above period.
- Two in-region interLATA dark fiber leases, one to MEANS, Inc. (now known as Onvoy, Inc.) and one to Timing Solutions Corporation, that Qwest did not divest prior to

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² *In the Matter of Qwest Communications International Inc.*, Order and Consent Decree, File No. EB-02-IH-0674, FCC 03-107, released May 7, 2003 (the "Consent Decree").



consummation of the Qwest/U S WEST merger were not discontinued pursuant to the Final Divestiture Plan. Such leases were terminated on October 10, 2002 through the sale of such facilities to the respective parties.

- Seven in-region interLATA private line facilities that existed prior to the merger date were not divested to Touch America, Inc. ("TA") nor discontinued subsequent to the merger date. These private line services included: five facilities provided to Triumph Communications, one facility provided to Electric Lightwave, Inc., and one facility provided to Teleglobe USA Inc. Such services were terminated as follows:

One Triumph Communications circuit	June 27, 2002
One Teleglobe USA Inc. circuit	March 14, 2003
Four Triumph Communications circuits	March 20, 2003
One Electric Lightwave, Inc. circuit	March 21, 2003

In our opinion, except for the material noncompliance described in the paragraph above, Qwest complied, in all material respects, with the Merger Orders during the Evaluation Period.

Our examination disclosed two formal complaints filed by TA with the Commission against Qwest. We have reviewed the TA complaints (except for those portions under the Commission's Protective Order), noting that they allege: (1) that Qwest has not complied with the Final Divestiture Plan, and (2) that Qwest has violated Section 271 and the Merger Orders through the sale of indefeasible rights of use ("IRUs") in its in-region local service area. We understand that Qwest's position is that it has complied with the Final Divestiture Plan, that the sale of IRUs is permitted under Section 271 and that TA's allegations are without merit. The Commission has not issued a ruling on the complaints filed by TA as of the date of this report. In addition, we understand that arbitration and judicial proceedings are pending between Qwest and TA to resolve contractual and commercial disputes. The arbitrator issued an Interim Award on March 26, 2003, which addressed many of these issues, as a result of which Qwest was awarded a net recovery of approximately \$59.6 million. The arbitrator has directed that the remaining issues be arbitrated between the parties during the summer and fall of 2003. The judicial proceedings are pending.

This report is intended solely for the information and use of the Board of Directors and management of Qwest and the Commission and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Denver, Colorado
June 11, 2003



707 Seventeenth Street
Suite 2700
Denver, CO 80202

The Board of Directors of Qwest Communications International Inc.
and the Federal Communications Commission
Denver, Colorado

June 11, 2003

Ladies and Gentlemen:

We have examined Qwest Communications International Inc.'s ("Qwest") compliance with the Merger Orders¹ during the period from January 1, 2002 through December 31, 2002, and have issued our report thereon dated June 11, 2003.

During our examination, we noted certain matters that are presented for your consideration. These matters did not change our judgments about materiality in planning and performing the engagement or in forming our opinion on Qwest's compliance with the Merger Orders. We understand that certain of these matters were addressed in the Consent Decree entered into between the Commission and Qwest on May 5, 2003.² These matters are summarized as follows:

A. Qwest Employee Access to Customer Account Records

We noted that there were seventeen employees who had "super-user" access, which allows an employee to view account records of both Qwest and Touch America, Inc. ("TA") customers, and includes the ability to make changes to those records. Thirteen of these employees had responsibilities to troubleshoot network and switch issues upon TA's request. These employees had "super-user" access for that purpose but each provided a declaration that s/he did not use the "super-user" access to make any changes to TA customer account records. "Super-user" access also was enabled in 2002 for four employees who did not require it for their duties. Two of these employees were noted by other auditors in connection with their Divestiture Compliance test work for the year ended December 31, 2001, although one account was for a terminated employee. These persons also provided declarations that s/he did not use super-user access to make any changes to any TA accounts. Nothing came to our attention as a result of our testing that indicates that any actions taken by these employees were in violation of the Merger Orders.

¹ *In the Matter of Qwest Communications International Inc. and US WEST, Inc., Applications for Transfer of Control of Domestic and International Sections 214 and 310 Authorizations and Application to Transfer Control of a Submarine Cable Landing License*, Memorandum Opinion and Order, CC Docket No. 99-272, FCC 00-91, released March 10, 2000, and FCC 00-231, released June 26, 2000 (the "June 26 Order") (collectively, the "Merger Orders"). Qwest submitted a plan to the Federal Communications Commission (the "Commission") regarding the divestiture of its in-region interLATA services in compliance with the relevant requirements of Section 271 of the Telecommunications Act of 1996. This plan was set forth in a Divestiture Compliance Report submitted on April 14, 2000, and in subsequent filings by Qwest with the Commission in Docket No. 99-272, and was approved by the Commission as consistent with Section 271, subject to certain modifications, as set forth in the June 26 Order (as so modified, the "Final Divestiture Plan").

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and the Federal Communications Commission

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B. Qwest Rehiring of Sales Employees

We noted that two management-level sales employees who became TA employees at divestiture were rehired by Qwest during 2002. Qwest management stated, and employee personnel files reflect, that neither of these employees was directly solicited. However, we understand that when interviewed by Qwest outside counsel, one employee stated that he had been solicited.

C. Calling Card Rate Changes

During 2002, TA received eleven requests from BellSouth Long Distance to modify post-paid calling card rates applicable to its calls originating within Qwest's 14-state region. TA forwarded such requests on to Qwest for implementation. Our testing revealed that two components of the eleven rate changes, in the states of Iowa and Minnesota, were not processed timely by Qwest. These rates should have been changed effective as of December 13, 2002, but were not changed as of that date. The impact of this issue was that 231 calls were improperly rated, resulting in an underpayment to TA of approximately \$79 (2002 impact of approximately \$12). These rates were properly adjusted effective May 13, 2003. Qwest has not remitted payment to TA as of the date of our report pending the outcome of the arbitration between Qwest and TA.

D. Generic Account Group ("GAG") Reports

Qwest generates the GAG report to identify interLATA services originating in-region that are potentially billed inappropriately as Qwest services. During our review of the 2002 GAG Reports, we noted the following:

- In the January 2002 GAG Report, there were several billing discrepancies identified where Qwest or TA were incorrectly identified as the service provider. The total 2002 impact related to in-region TA services incorrectly billed as Qwest services was approximately \$77,000. The total 2002 impact related to out-of-region Qwest services incorrectly billed as TA services was approximately \$217,000. Qwest has not remitted payment to TA as of the date of our report pending the outcome of the arbitration between Qwest and TA.
- In the December 2002 GAG Report, two TA frame relay circuits were identified as inappropriately billed to the end user customer in the name of Qwest. The total 2002 revenues inappropriately recognized by Qwest were \$232. Qwest has not remitted payment to TA as of the date of our report pending the outcome of the arbitration between Qwest and TA.
- Qwest also runs a supplemental out-of-region GAG Report, which serves to identify TA billed services with Qwest components. In six instances, customer bills had erroneously identified services as provided by Qwest instead of TA. The total impact on these bills was \$3,268, of which \$274 related to 2002. Qwest has not remitted payment to TA as of the date of our report pending the outcome of the arbitration between Qwest and TA.



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E. Prepaid Calling Cards

We noted that Qwest did not remit to TA certain revenues associated with in-region interLATA use of prepaid calling cards. The estimated amount that was not properly remitted to TA during 2002 as a result of this issue was approximately \$678,500, related to approximately 1,080,000 prepaid card calls (totaling approximately 5,654,000 minutes). In considering the impact of this matter, the above amounts should be netted against corresponding amounts due from TA to Qwest in cases where Qwest provided operator services or calling card platform functions for TA related to TA's provision of these services to its prepaid card customers. Qwest has not remitted payment to TA as of the date of our report pending the outcome of the arbitration between Qwest and TA.

F. Global Service Provider

We noted that certain manual invoices during 2002 for twelve customers who subscribe to Internet-related services did not include a separate Global Service Provider ("GSP") charge for in-region interLATA traffic carried by TA. The estimated amount of manual Internet-related billings that should have been billed as TA GSP charges was approximately \$23,000. Further, we noted that Qwest had identified 108 instances in its monthly GSP completeness audits where multiple GSP charges in amounts up to approximately \$476,000 should have been billed as TA GSP charges during 2002. Qwest has not remitted payment to TA as of the date of our report pending the outcome of the arbitration between Qwest and TA.

G. Provision of Support Services

We noted that Qwest continued to provide certain services to TA, specifically billing and collection, software licensing and switch monitoring and maintenance, subsequent to the June 30, 2002 end date of the transitional support period specified in the Merger Orders and the Final Divestiture Plan. The majority of these services, particularly billing and collection services, involve special product arrangements specifically for calling cards, prepaid cards, Internet and other information services, and operator services. Switch monitoring and maintenance was provided to TA for the four switches TA leased from Qwest as part of the Final Divestiture Plan.

H. Durfee, South Dakota Correctional Facility Payphone

During the period from December 2002 through April 2003, calls from a correctional facility in the amount of approximately \$4,553 were misbilled in the name of Qwest Corporation due to an administrative error by T-Netix, a third party operator services provider. T-Netix provides automated operator services at the Durfee, South Dakota Correctional Facility where all calls are automated collect calls. The call records are stored at the facility on T-Netix equipment and forwarded to third-party billing companies for placement on local exchange carrier bills. From December 5, 2002 through April 17, 2003, T-Netix sent Qwest Information Technology files containing interLATA interstate calls. Normally, interLATA calls would reject out of the Qwest system but, in this case, an interstate rate table existed by necessity as South Dakota is a single-LATA state where the LATA crosses numerous state boundaries. Of the interLATA calls



The Board of Directors of Qwest Communications International Inc.
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submitted, many were rejected because Qwest Corporation was not authorized to bill on certain local exchange carrier bills; however, some calls were billed in the name of Qwest Corporation. Of the records sent, 808 interstate calls representing 9,913 minutes of use and approximately \$4,553 were billed with Qwest inappropriately identified as the service provider. Qwest removed the interstate rate table related to these calls in April 2003 so any additional call records that may be erroneously sent by T-Netix to Qwest Information Technology for billing would reject.

I. Commercial Credit Card Bill Labeling

Qwest has identified a bill labeling issue involving interLATA operator services calls originating in-region that were billed to the customer's commercial credit card. Such calls were properly branded at the operator services platform in the name of TA (or in some cases TA's wholesale customer). These calls were carried by TA and TA received the appropriate revenue. However, billing information provided to the third party credit card processor led the calls to appear on the consumer's bill as a Qwest charge. Of the records sent from July 1, 2000 through March 2003, 43,184 calls representing 287,721 minutes of use and approximately \$600,000 were mislabeled as Qwest. Qwest addressed this issue by adding service codes to appropriately denote the owner of the call on information provided to the commercial credit card bill processors in the fall of 2002 and correcting a data entry error in March 2003.

J. Dial-Up Access Network Link

In a letter to the Commission dated March 7, 2003, Qwest reported a matter concerning dial-up access for Internet Service Providers ("ISPs") in its region. Beginning in September 2002, Qwest paid AT&T to provide an interLATA link between Verizon facilities that carried local service from Sandpoint, Idaho to Coeur d'Alene, Idaho and TA facilities in Spokane, Washington. The purpose of the link between Coeur d'Alene and Spokane is to permit Qwest, and TA as the GSP, to provide dial-up Internet access capability to ISPs wishing to serve customers in the Sandpoint and surrounding communities in northern Idaho. Qwest made total payments of approximately \$6,118 to AT&T for this link, of which \$3,496 related to 2002. Effective April 3, 2003, TA became AT&T's customer for this interLATA link under a standard AT&T Transfer of Service Agreement.

K. In-Region Wholesale Transport of Operator Services – Services Originating In-Region

In a letter to the Commission dated March 7, 2003, Qwest reported a matter whereby TA received in-region wholesale transport of operator services from MCI under a contract between MCI and Qwest Communications Corporation. This transport was for 8xx service terminating out-of-region used to carry calls by in-region operator services customers routed to Qwest operator services platforms for call processing. These services resulted from the erroneous transfer of these 8xx numbers from TA's network to MCI's network beginning in October 2001 and completed in January 2002. Qwest made routing changes to correct this issue on February 26, 2003. Qwest subsequently identified an additional 2,407 8xx numbers that were capable of



The Board of Directors of Qwest Communications International Inc.
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routing, and in some cases did route, in-region TA operator services calls to the platform. Such services were blocked in May 2003.

For certain of these 8xx numbers, a software coding issue arose on April 4, 2002, whereby a system ceased to assign the correct record ownership for casual operator services calls originating within the Qwest 14-state region. The ownership of all such calls was incorrectly identified as 'QWEST' and therefore the calls were rated using Qwest tariffed rates. This resulted in 2,148 calls being erroneously billed out under the Qwest label. The dollar impact of these casual calls amounted to \$38,061 in 2002. This issue was corrected on May 16, 2002 through a software change. Additionally, an error in the account setup of operator services 8xx numbers resulted in 182 non-casual calls being incorrectly identified as 'QWEST' and rated using Qwest tariffed rates. The dollar impact of these calls amounted to \$3,327 in 2002.

L. In-Region Wholesale Transport of 8xx Services – Services Terminating In-Region

Similar to the matter described in K. above, TA received wholesale transport from MCI related to certain 8xx numbers that terminated in-region. These services resulted from the erroneous transfer of 3,850 8xx numbers from TA's network to MCI's network in October 2001. Of these numbers, 795 were blocked in May 2003 and the remaining 2,842 8xx and 213 enhanced 8xx numbers have been re-routed to TA or a different carrier of the customer's choice, or blocked in June 2003. Additionally, as a result of this issue, 373 TA calls representing 1,821 minutes of use and \$113 were billed with Qwest inappropriately identified as the service provider. It was also noted that an additional 12,561 TA calls representing 38,868 minutes of use and \$2,007 were inappropriately billed with Qwest identified as the service provider due to an issue concerning the transfer of calls from the TA Bilateral Wholesale Bill Cycle to Retail billing cycles from July 1, 2000 through April 30, 2003. For both instances, approximately 12,667 TA calls representing 39,253 minutes of use and \$2,025 were erroneously billed during 2002 as Qwest calls.

Our examination procedures are designed primarily to enable us to form an opinion on Qwest's compliance, in all material respects, with the Merger Orders, and therefore may not bring to light all matters that may exist. We aim, however, to use our knowledge of the Company's organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these matters with you at any time.

This report is intended solely for the information and use of the Board of Directors and management of Qwest and the Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP